

LABOR MARKET MODERNIZATION PROGRAM PHASE II

(ME-0118)

EXECUTIVE SUMMARY

Borrower:	Nacional Financiera, S.N.C. (NAFIN)	
Guarantor:	United Mexican States	
Executing agency:	Department of Labor and Social Welfare (STPS)	
Amount and source:	IDB: (OC)	US\$200.0 million
	Local:	US\$233.3 million
	Total:	US\$433.3 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	2 years
	Disbursement period:	2 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75% on the undisbursed balance
	Currency:	U.S. dollars from Ordinary Capital under the Single Currency Facility
Background:	<p>In December 1996, the Bank's Board of Executive Directors approved the labor market modernization program, designed and analyzed by the Bank as a single operation that would be implemented in two phases and would entail a total estimated cost of US\$850 million, of which the Bank would contribute US\$450 million. Each phase would be supported by an independent loan (US\$250 million and US\$200 million, respectively) to be disbursed over a period of three years for phase I and two years for phase II.</p> <p>Upon approval of phase I in December 1996, the Bank's Board of Executive Directors decided that the implementation of phase II would be subject to the following conditions: (i) that 50% of the financial resources for phase I had been disbursed; and (ii) that satisfactory progress had been made in the overall execution of the program.</p>	

On January 9, 1997, the contract for loan 983/OC-ME in the amount of US\$250 million was signed to finance phase I of the program. The loan was declared eligible for the first disbursement on November 5 that year. To date, US\$236 million has been disbursed, representing 95% of the US\$250 million allocated for phase I. The remaining US\$14 million will be disbursed by July 2000. Phase I was completed on December 31, 1999, and 100% of the resources were committed by that date.

Objectives: The purpose of the attached document is to present details of the progress made during the execution of phase I. The experiences from phase I have provided a foundation for consolidating the activities that will be continued in phase II.

In accordance with the program objectives, phase II will build on the strategic achievements already made and consolidate the integration of labor policies with the long-term development strategy initiated during phase I to increase the productivity of the economically active population. This will be achieved through efficient operation of the active labor market programs and sector training to analyze, plan, and program labor policy. Phase II will incorporate a series of innovations and changes made as a result of lessons learned during phase I (paragraphs 2.18 to 2.22).

Description: The activities to be supported by the Bank are detailed in the attached document and in Annex I, which specifies the benchmarks for phase II. The following four subprograms will continue to be supported in phase II:

Subprogram 1. Comprehensive quality and modernization program (CIMO). Elements and mechanisms to administratively decentralize the UPCs will be introduced and tested. In addition, the participation of MSMEs will be increased. A job skills and certification system for businesses and individual consultants providing services under the program will be promoted. Evaluation activities will also be expanded to better identify the impacts of the various program modalities (paragraph 2.18).

Subprogram 2. Mechanisms for structural adjustment of the labor market, and training grant program for unemployed workers (PROBECAT). The goal is to prioritize the importance given to various modalities within PROBECAT in order to promote the more effective ones, particularly the mixed modality (internships at businesses). New activities and pilot projects will be developed to improve the productivity of programs for the self-employed. In addition, greater integration of placement, counseling, and training services to be provided by private agencies under the State

Employment Offices will be promoted. New contracting procedures will be introduced to ensure that the goals of this last innovation are met (paragraph 2.19).

Subprogram 3. Policy evaluation and institutional development.

New, well-defined internal coordination mechanisms will be established to overcome administrative delays experienced in phase I. In addition, internal capacity will be strengthened through technical support and greater supervision. It has been agreed that close monitoring of the studies and surveys action plan will also be undertaken (paragraph 2.20).

Subprogram 4. Modernization of workplace practices. The development of information networks and administration systems will be accelerated. Ongoing evaluations will also be accelerated and enhanced so that all available resources can be used to determine whether activities should be continued or discontinued in phase II (paragraph 2.21).

Role of the Program in the Bank's country and sector strategy:

Phase II of the program will continue to be consistent with the Bank's strategy to support Mexico in its labor market modernization efforts.

Environmental and social review:

The former Environment Committee had classified this operation as a Category II project. This classification was maintained for phase II, as most of the activities will continue to focus on training, studies, surveys, and institutional strengthening. A classification of Category II by the former Environment Committee is equivalent to interventions with no significant environmental impact.

Benefits:

The implementation of the activities outlined in phase I of the program has helped improve the effectiveness of the Mexican government's labor policies. This has been achieved by successfully integrating public and private sector participation in the design and provision of training and labor mediation services. Due, in part, to the Bank's support for the Department of Labor and Social Welfare, three fundamental objectives have been met. The first objective was to advance the development of innovative organizational models that will ensure timely, relevant training services. The second objective was to enhance the effectiveness of labor mediation services by incorporating alternate providers of job placement and training services. The third objective was to strengthen the labor authority's ability to manage, oversee, and promote the various types of contracts that determine working conditions and remuneration without adversely affecting job creation.

Improvements in the design and implementation of labor policies have served the Bank's and the Mexican government's shared objective of shifting from short-term, assistance-oriented programs to labor policy-based activities in the framework of a development strategy to increase productivity and competitiveness. The program has contributed to the achievement of this objective. First, technical assistance being evaluated has allowed a dynamic of change to be established in the design and implementation of labor policy. Second, the inclusion of private entities in the delivery of services, which are much more responsive to market forces when determining the type and content of job placement and training services, has made these programs more efficient and adaptive to the changing circumstances of the Mexican economy. Third, the transparency associated with the publication of clear operating rules for the programs which are disclosed to the beneficiaries has reduced the risk of political manipulation.

Special aspects of phase I

Impact on women. As was agreed on during original preparation of the program, the STPS has shown a firm commitment to supporting women by increasing and expanding their participation in labor market programs (paragraph 1.27).

Support for differently-abled persons. One of the most innovative aspects of the program has been the introduction of pilot programs that address the needs of differently-abled workers, and awareness-raising activities to educate employers about the potential productivity of these workers (paragraph 1.28).

Poverty reduction and social sector classification:

The activities that will continue to be supported under subprogram 2, the job placement program for unemployed workers (PROBECAT), will continue to benefit low-income groups throughout the country. Therefore, the program partially complies with the Bank's guidelines for participation in poverty reduction and social equity programs.

Exceptions to Bank policy:

See procurement of goods, works, and consulting services.

Procurement of goods, works, and consulting services:

The procurement of goods and contracting of works and related services using the proceeds from the loan will be carried out according to the Bank policies and procedures that will be set forth in Annex B to the prospective loan contract. The thresholds above which international competitive bidding (ICB) will be required are US\$350,000 for goods and US\$5 million for works.

The contracting of consulting services and courses will be carried out according to Bank policies and procedures that will be set forth in Annex C to the loan contract. The threshold above which an

international open call for proposals will be required is US\$200,000.

As an exception to the ICB requirements, the following institutions, which provided services in phase I, will be hired directly:

- a. The National Institute of Statistics, Geography, and Information (INEGI), to carry out population and labor market surveys, and
- b. The Mexican Construction Board of Trade (CMIC), to conduct studies on occupational health and safety in the construction industry (paragraph 2.36).

The borrower may also directly contract through the executing agency for the following services:

- a. impact studies on labor migration, to be carried out by the Colegio de la Frontera Norte (COLEF), and
- b. publicity through television, radio, or press.

In accordance with Bank policy, ex post reviews may be carried out for procurements below the thresholds.

**Special
contractual
conditions:**

The funds transfer agreement between NAFIN and the United Mexican States must be signed as a condition precedent to the first disbursement of the loan proceeds.

Retroactive financing may be authorized for procurements of goods, works, and consulting services for the program for up to US\$40 million from the Bank's financing and for up to US\$45 million from local counterpart resources (paragraph 2.37).